

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 EB-08 FRB-03 INR-10
NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
SVC-00 /093 W

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R 082215Z AUG 78
FM AMEMBASSY MANAGUA
TO SECSTATE WASHDC 7397
USDOC WASHDC
INFO AMEMBASSY GUATEMALA

LIMITED OFFICIAL USE MANAGUA 3679

GUATEMALA PLEASE PASS ROCAP

E.O. 11652: N/A
TAGS: EFIN, NU
SUBJECT: COMMERCIAL BORROWING BY THE GON

1. THROUGH VARIOUS SOURCES EMBASSY HAS LEARNED OF BORROWINGS BEING SOUGHT BY GON FROM VARIOUS PRIVATE COMMERCIAL BANKS. SOME OF THE LOANS HAVE ALREADY BEEN NEGOTIATED WHILE OTHERS WILL BE CONDITIONAL UPON THE GRANTING OF A STAND-BY ARRANGEMENT WITH THE INTERNATIONAL MONETARY FUND. TWO AMERICAN BANKS HAVE NOT AS YET DECIDED THE CONDITIONS FOR THEIR LOANS AND IF THE LOANS WILL BE GRANTED AT ALL.

2. THE MAJOR PORTION OF THE LOANS WILL BE USED TO HELP COVER THE GON'S BUDGETARY DEFICIT WHICH IS ESTIMATED AT \$200 MILLION FOR THIS YEAR, APPROXIMATELY \$100 MILLION OF WHICH WILL HAVE TO BE BORROWED FROM ABROAD. THE REMAINDER OF THE FUNDS MAY BE RAISED THROUGH INCREASED TAXES AND CUT BACKS IN SPENDING BY THE VARIOUS GON MINISTRIES.

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3. ONE INTERESTING ASPECT OF THE LOANS IS THAT TWO EUROPEAN BANKS ARE INCLUDED IN THE LIST -- SWISS BANKING CORPORATION AND LLOYD'S. (SOURCES HAVE STATED THAT THE GON HAS NOT BORROWED HEAVILY FROM EUROPEAN BANKS IN THE PAST.) THIS MAY INDICATE A DECISION BY GON TO MOVE INTO EUROPEAN MONEY MARKETS, POSSIBLY DUE TO THE SATURATION OF ITS TRADITIONAL PRIVATE COMMERCIAL

SOURCES IN THE U.S. AND CANADA.

4. THE MOST CONTROVERSIAL OF THE LOANS IS THE ONE FOR \$20 MILLION DOLLARS BY THE ROYAL BANK OF CANADA TO INFONAC (THE NATIONAL DEVELOPMENT INSTITUTE). INFONAC, WHICH HAS A HISTORY OF CONTINUING FINANCIAL PROBLEMS, WILL PROBABLY USE THE LOAN FOR CAPITALIZATION PRUPOSES. THE LOCAL PRESS HAS GIVEN A GREAT DEAL OF PUBLICITY TO THIS LOAN BECAUSE OF LOCAL SKEPTICISM ABOUT THE EFFECTIVENESS OF INFONAC'S ACTIVITIES AND THE COMMISSIONS THAT ALLEGEDLY WILL BE PAID IN CONNECTION WITH THE LOAN. LA PRENSA, ANTI-GON NEWSPAPER, RECENTLY STATED THAT ONE MILLION DOLLARS WILL BE PAID IN COMMISSSIONS. IN NOVEDADES, PRO-GOVERNMENT DAILYOX INFONAC HAS REPLIED TO THE CHARGE OF LARGE COMMISSIONS BY STATING THAT ALL NEGOTIATIONS FOR THE LOAN WERE DIRECTLY BETWEEN INFONAC AND THE ROYAL BANK AND THAT ANY COMMISSIONS ON LOAN WILL NOT BE EXORBITANT AND WILL REPORESENT ONLY NORMAL COMMISSIONS FOR A LOAN OF THIS TRPE. EMBASSY HAS NO WAY OF DETERMINING EXACT AMOUNT OR NATURE OF ANY COMMISSIONS TO BE PAID.

5. COMMERCIAL LOANS IN NEGOTIATION WITH GON

BANK	AMOUNT
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(#) (MILLION)

INPROCESS

ROYAL BANK OF CANADA	INFONAC	\$ 20
AMERICAN EXPRESS INTER'L	GON	10
BANK CORP.		
SWISS BANK CORP.	GON	15
MANUFACTURERS HANOVER	GON	4
LLOYD'S	GON	4
SUB-TOTAL		\$ 53

TIED TO IMF STAND-BY

WELLS FARGO	GON	4
MORGAN GUARANTY	GON	4
IRVING TRUST CO.		2
CHEMICAL BANK		4
SUB-TOTAL		\$ 14

CONSIDERING

CITIBANK		4
BANK OF AMERICA		4
SUB-TOTAL		\$ 8

\$ 75 MILLION

6. IN GENERAL THE INTEREST CHARGE ON ABOVE LOANS IS MARKET
RATE (9-9 1/2 PERCENT) PLUS (1 1/2-2 1/2 PERCENT) PLUS
CARRYING CHARGES OF 1 PERCENT. A GON AGREEMENT WITH
IMF MAY STIPULATE THEY CAN ONLY INCURE \$85 MILLION
NEW COMMERCIAL DEBT THIS YEAR.
TUCKER

NOTE BY OC/T: (#) OMISSION. CORRECTION TO FOLLOW.

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Message Attributes

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